

Message Text

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ACTION EUR-12

INFO OCT-01 AF-06 IO-11 ISO-00 AID-05 CIAE-00 COME-00

EB-07 FRB-01 INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04

OPIC-06 SP-02 CIEP-02 LAB-04 SIL-01 OMB-01 NSC-05

SS-15 STR-04 CEA-01 PA-02 PRS-01 L-03 /116 W

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R 241605Z FEB 76

FM AMEMBASSY BERN

TO SECSTATE WASHDC 2168

INFO AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY PRETORIA

AMEMBASSY ROME

USMISSION EC BRUSSELS

USMISSION GENEVA

USMISSION OECD PARIS

USDEL MTRN GENEVA

AMCONSUL ZURICH

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DEPT PASS TREASURY AND FRB

EO 11652: N/A

TAGS: EFIN ECON SZ

SUBJ: SWISS FINANCIAL AND ECONOMIC REPORT: WEEK OF FEB 15-21

1. SUMMARY: THE DOLLAR STRENGTHENED IN A CALM MARKET AND GOLD PRICES WERE STEADY. SWISS NATIONAL BANK (SNB) GENERAL MANAGER SCHURMANN SAID SWITZERLAND WAS STILL INTERESTED IN JOINING THE SNAKE, WHILE A MAJOR SWISS BANK REPORTED THAT SWITZERLAND MUST LEARN TO LIVE WITH AN EXPENSIVE SF. THE MONEY AND CAPITAL MARKET ARE STILL VERY LIQUID AND THE GOVERNMENT PLANS TO FLOAT A BOND ISSUE TO ABSORB SOME OF THE EXCESS LIQUIDITY. THE

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SNB IS NEGOTIATING AN AGREEMENT UNDER WHICH MULTI-NATIONAL INSTITUTIONS IN SWITZERLAND WILL REPORT ON

FUTURE CAPITAL TRANSACTIONS. IMPORTS FELL A LITTLE AND EXPORTS A LOT IN JANUARY, AS COMPARED WITH JANUARY 1975. IN 1975, FOR THE SECOND YEAR IN A ROW, THE NUMBER OF FOREIGN TOURISTS IN SWITZERLAND DECLINED.

FINANCIAL

2. LAST WEEKEND'S DECISION BY FRENCH AND GERMAN AUTHORITIES TO MAINTAIN THE EXISTING PARTIES OF THEIR CURRENCIES HAD A CALMING EFFECT ON THE ZURICH FOREIGN EXCHANGE MARKET, AND THE DOLLAR STRENGTHENED THIS WEEK. ALTHOUGH TRADING WAS QUIETER THAN LAST WEEK, THE SF WAS STILL UNDER RATHER HEAVY BUYING PRESSURE IN THE FIRST PART OF THE WEEK DURING WHICH THE SNB BOUGHT APPROXIMATELY \$200 MILLION. THE GOLD MARKET WAS QUIET AND PRICES WERE STABLE. RATES AS FOLLOWS:

	2/16(OPEN)	2/20(CLOSE)
SPOT DOLLAR	SF 2.5517	SF 2.5640
FORWARD DISCOUNTS (PCT. P.A.)		
ONE MONTH	-4.3	-3.9
2 MONTHS	-4.3	-3.9
3 MONTHS	-4.2	-4.0
6 MONTHS	-4.0	-3.9
12 MONTHS	-3.7	-3.6
SF/DM	SF 99.98	SF 100.07
GOLD	\$ 131.00	\$ 131.50

3. SWITZERLAND AND THE SNAKE: SNB GENERAL MANAGER LEO SCHURMANN TOLD THE PRESS THIS WEEK THAT SWITZERLAND WAS STILL INTERESTED IN JOINING THE EUROPEAN CURRENCY SNAKE. THE RAMBOUILLET DECISION ON COORDINATED FOREIGN EXCHANGE INTERVENTIONS, HOWEVER, HAS MADE THE QUESTION OF SWISS MEMBERSHIP IN THE SNAKE LESS URGENT, AND SWITZERLAND DOES NOT PLAN TO MAKE ANY DEMARCHES AT THIS TIME, HE SAID.

4. LIVING WITH A HIGH SF: A REPORT PREPARED BY THE SWISS BANK CORPORATION (SBC) STATES THAT SWITZERLAND MUST LEARN TO LIVE WITH AN EXPENSIVE SF. ACCORDING TO UNCLASSIFIED UNCLASSIFIED

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THE SBC, THE SF IS PRESENTLY OVERVALUED BY AN AVERAGE OF 10 TO 15 PERCENT DESPITE LOW INTEREST RATES IN SWITZERLAND AND HEAVY INTERVENTION BY THE SNB. THE HIGH LEVEL OF THE SF IS DUE TO LARGE CAPITAL INFLOWS WHICH REFLECT ECONOMIC REALITIES IN SWITZERLAND AND ABROAD. WHILE THERE IS NOT MUCH MORE THE GOS CAN DO TO DEPRESS THE VALUE OF THE SF, THE SF'S APPRECIATION HAS HAD A POSITIVE EFFECT IN CUTTING THE RATE OF INFLATION AND AN ESTIMATED 25 PERCENT OF THE APPRECIATION HAS BEEN ABSORBED THROUGH REDUCED RAW MATERIAL COSTS.

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DEPT PASS TREASURY AND FRB

5. MONEY AND CAPITAL MARKETS: THE CALL MONEY RATE REMAINED UNCHANGES AT 0.25 PERCENT. CONTINUED INTERVENTION BY THE SNB HAS KEPT THE MONEY AND CAPITAL MARKETS VERY LIQUID DESPITE RECORD CAPITAL EXPORTS. AS A CONSEQUENCE, THE CONFEDERATION IS PLANNING ANOTHER BOND ISSUE, THIS TIME FOR SF 500 MILLION, TO ABSORB SOME OF THE EXCESS LIQUIDITY. THE PROCEEDS OF THIS PLACEMENT WILL BE HELD BY THE CONFEDERATION IN A RESERVE FUND FOR USE IN 1977. ACCORDING TO PRESS REPORTS, HOWEVER, THE CONFEDERATION AND THE GROUP OF UNDERWRITING BANKS HAVE NOT YET REACHED AGREEMENT ON THE RATE OF INTEREST. THE CONFEDERATION WANTS A COUPON OF 5.5 PERCENT, WHILE THE BANKS BELIEVE 5.75 PERCENT IS REQUIRED TO MARKET THE BONDS. THE MEDIAN

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YIELD ON OUTSTANDING CONFEDERATION BONDS ROSE FROM 5.37 PERCENT ON FEBRUARY 13 TO A HIGH OF 5.43 PERCENT DURING THE WEEK BUT FELL BACK TO 5.34 PERCENT ON FEBRUARY 20. PRICES IMPROVED IN MODERATE TRADING ON SWISS STOCK EXCHANGES; THE SKA INDEX ROSE FROM 205.0 (END 1959 EQUALS 100) ON NOVEMBER 13 TO 207.2 ON FEBRUARY 20.

6. CAPITAL FLOWS: THE SNB IS NEGOTIATING AN AGREEMENT WITH SWISS AND FOREIGN MULTINATIONAL INSTITUTIONS BASED IN SWITZERLAND UNDER WHICH THESE INSTITUTIONS WOULD REPORT THEIR PLANNED CAPITAL TRANSACTIONS THREE MONTHS IN ADVANCE. LACK OF INFORMATION ON CAPITAL FLOWS HAS PREVENTED THE GOVERNMENT FROM PREPARING THE CAPITAL ACCOUNTS PORTION OF THE BALANCE OF PAYMENTS AND CREATED PROBLEMS WHEN SWITZERLAND WAS NEGOTIATING TO JOIN THE SNAKE.

ECONOMIC

7. FOREIGN TRADE: SWITZERLAND'S MERCHANDISE TRADE DECLINED IN JANUARY AND, FOLLOWING LAST YEAR'S TREND, IMPORTS FELL MORE THAN EXPORTS. AS A RESULT, THE JANUARY TRADE DEFICIT WITH THE WORLD OF SF 110 MILLION WAS ONLY ABOUT ONE-FIFTH THE SIZE OF THE DEFICIT OF JANUARY 1975. THE RELATIVE DECLINE IN SWITZERLAND'S TRADE DEFICIT WITH THE US WAS EVEN GREATER; THE JANUARY DEFICIT WITH THE US WAS 20 MILLION AS COMPARED WITH SF 163 MILLION A YEAR EARLIER. THE US SHARE OF SWISS IMPORTS IN JANUARY WAS 6.9 PERCENT, DOWN FROM 9.4 PERCENT IN JANUARY 1974. TRADE FIGURES ARE SHOWN BELOW:

	WORLD	US
MILLION SF (PCT. CHANGE OVER SAME PERIOD 1974)		
JANUARY		
IMPORTS	2,575(-16.7)	177(-39.2)
EXPORTS	2,465(- 2.2)	157(UP 21.9)

8. TOURISM DOWN: BASED ON THE NUMBER OF NIGHTS SPENT IN SWISS HOTELS, THE NUMBER OF FOREIGN TOURISTS IN SWITZERLAND FELL 1.5 PERCENT IN 1975 FOLLOWING AN 8.2 UNCLASSIFIED

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PERCENT DROP IN 1974. HOWEVER, SINCE CONSUMER PRICES

ROSE AN AVERAGE OF 6.7 PERCENT IN 1975, SWISS BALANCE
OF PAYMENTS FIGURES SHOULD SHOW A MODEST INCREASE
IN TOURIST REVENUES FOR 1975.
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